ASSEMBLY APPROPRIATIONS COMMITTEE

STATEMENT TO

ASSEMBLY, No. 2793

with Assembly committee amendments

STATE OF NEW JERSEY

DATED: MARCH 20, 1997

The Assembly Appropriations Committee reports favorably Assembly Bill No. 2793, with committee amendments.

Assembly Bill No. 2793, as amended, authorizes the New Jersey Economic Development Authority ("EDA") to issue bonds and refunding bonds to provide funds for paying, in full or in part, the unfunded accrued pension liability of the State in each State pension fund, as certified by the State Treasurer, and any issuance costs of those bonds. These bonds would be special and limited obligations of the EDA, and would not be a debt or liability of the State.

The proceeds from the sale of the bonds will be paid by the EDA to the Teachers' Pension and Annuity Fund, the Judicial Retirement System, the Prison Officers' Pension Fund, the Public Employees' Retirement System, the Consolidated Police and Firemen's Pension Fund, the Police and Firemen's Retirement System and the State Police Retirement System to be applied to the payment of the unfunded accrued pension liability of the State under these funds as directed by the State Treasurer.

FISCAL IMPACT:

According to information published by the Administration, this bill, in combination with its companion Assembly Bill No.2794, will save a total of $42 billion in pension funding costs.

COMMITTEE AMENDMENTS:

The amendments clarify that the unfunded accrued liability may be funded in full or in part; require that the bond debt service payments at least equal the actuarially determined payments that would otherwise have been made to fund the unfunded accrued liability.

MINORITY STATEMENT:

Submitted By: Assemblymen Roberts, Romano, Suliga, Assemblywoman Buono and Assemblyman Jones

This bill represents seriously flawed public policy. At best, it is a legitimate financial concept which has been undermined and twisted by

budgetary pressures of the Administration's own making. At worst, it is an intentional violation of the public trust and the state's fiduciary responsibility to current and future generations.

The sponsors, along with the Governor and Treasurer, purport the need to strengthen the financial underpinnings of the various state pension systems by paying off the unfunded accrued liability. This liability is estimated at $4.2 billion.

Neither the sponsors, nor the Whitman Administration have demonstrated that the proposed sale of pension obligation bonds is the sole means available to achieve this objective. In addition, by shortening the approval process and denying the public the right to decide on the debt, the sponsors and the Administration have guaranteed that a thorough, public debate on possible alternatives will never occur.

For the sake of argument, in analyzing this measure, let us assume the bond sale proposed within this legislation is the only means by which the unfunded accrued liability can be covered.

Even if you make this assumption, there are four basic flaws inherent in this legislation which call for its defeat absent satisfactory amendments:

It deliberately subverts public will.

This legislation will result in $2.9 billion in bonded indebtedness in the name of the taxpayers of the State of New Jersey. However, in order to avoid public scrutiny, the debt is being called "subject to appropriation" rather than "General Obligation." This is no more than a game of financial semantics designed to deny the taxpayers their Constitutional right and responsibility to approve or disapprove of state taxpayer debt. If it is believed that this proposal is good public and fiscal policy, then the Legislature should not fear, but rather welcome, public input.

It is incredible that Governor Whitman would even propose such an end-run around the voters. As a candidate, Governor Whitman criticized her predecessor, saying, "When it comes to borrowing money, Jim Florio's attitude toward the people of New Jersey is 'we'll take your money, but keep your opinions to yourself.' That attitude must change. The people should be full partners in their government and their money must be treated with respect." She further stated on the issue of debt refinancing, "If it gets to that stage and they're talking about floating a bond issue, then it ought to be a bond issue that's on the ballot so the people get a chance to vote on it."

This proposal is in direct contradiction to those statements. The Governor should be held to her earlier beliefs and the public should be the final arbiter of this proposal.

This plan will unnecessarily cost taxpayers at least $6 billion.

This scheme is structured such that annual payments on the bonds would increase dramatically over the life of the debt in order to generate the upfront State budget savings. When all is said and done, paying back the $2.9 billion debt will cost taxpayers nearly $15 billion.

The Treasurer claims this entire deal is no different than a homeowner refinancing a mortgage to save money. But, there is a $6 billion difference.

The average homeowner would refinance a mortgage in such a way to achieve a relatively level annual payback schedule, not to have payments escalate rapidly year to year.

If this bond deal were structured to achieve level annual payments, New Jersey taxpayers would pay approximately $8.6 billion over the life of the issue, rather than the nearly $15 billion proposed by the Governor and Treasurer.

Pension funds are once again being used to prop up a shaky, unbalanced state budget.

For Fiscal Year 1998, the Governor has proposed the largest budget in state history. Its balance -- a Constitutional requirement -- is entirely dependent on the sale of these bonds. Depositing the proceeds of this bond sale into the various state pension systems to pay the unfunded accrued liability is providing justification to the Governor to forego contributing $647 million to the systems.

Without this sale and the consequential reduction in normal pension contributions, the Governor's proposed budget would have a deficit of nearly $100 million.

Using this money to balance the budget could damage the State's credit rating while clearly demonstrating that the bond scheme is nothing more than a veiled attempt to continue spending well beyond the level of annual recurring revenue.

Contrary to the Governor's claims, the structural deficit in the state budget -- the inability to pay for current operations with current revenues -- remains high, hovering around $1 billion.

Thus, for the fourth consecutive year, Governor Whitman will rely on depriving the pension systems of normal contributions. This will allow her administration to continue to spend tax dollars at historically record-breaking levels.

The economic development authority is unnecessarily being tainted and jeopardized by this scheme.

In a further attempt to keep this scheme at arms length from the State treasury and away from the public ballot referendum process, the bond debt would be issued by the Economic Development Authority (EDA).

The EDA is an effective, vibrant engine for stimulating New Jersey's economy. It's financial strength provides an outlet for business investment and growth -- generating jobs in the private sector.

To saddle an agency whose mission is to create economic opportunities, with this enormous debt which has no relationship to its goals, is foolish.

New Jersey's economic growth continues to lag behind the national strength. The State should be harnessing all of EDA's financial wherewithal and focusing it directly on business development and job

creation.

It is ill-conceived and short-sighted to deliberately jeopardize and exploit EDA's strengths simply to circumvent the public referendum process.

This legislation had a laudable goal -- to provide the dollars necessary to cover the unfunded accrued liability in the various State pension systems. These systems have been treated, in the past few years, as open bank accounts, available for any State use.

Seriously, questionable actuarial assumptions were used in 1994 to justify underfunding the pension system by over $3 billion. Providing this $2.9 billion will begin to reverse some of the damage caused by those blatantly manipulative financial maneuvers.

But, the laudable goal has been overshadowed by even more costly fiscal gamesmanship. This scheme is nothing more than a complex, expensive ruse designed to camouflage the failures of the Whitman Administration's fiscal policies.

This labyrinth of financial moves has been crafted to lead the public away from the short-comings of the State budget. While the taxpayers are left to roam around a maze of actuarial intricacies and financial market complexities, the Treasurer and Governor will be making off with $647 million in short-term budget money. If the taxpayers ever find their way through the maze, they will find, at the end, a bill for $15 billion and no say in the process.

The public deserves, and frankly, has a right to make the final determination on this proposal. If the Whitman Administration's true purpose is to strengthen the State pension systems, then put all of the facts before the people of the State and let them decide.

At the same time, the plan should be re-crafted to remove the ill-conceived financial maneuvering used to disguise a budget deficit. The plan which is ultimately placed before the voters, should not be used to fill a budget hole. The upfront savings are artificial and serve only to increase the long-term cost and to require the state to use less attractive financial instruments. In addition, the plan put forth for voter consideration, should be structured to repay the debt in equal installments, saving taxpayers over $6 billion.

Finally, the EDA should be left out of the proposal. If the public were to approve this debt, it should be general obligation debt, issued by, and backed by, the full faith and credit of the State of New Jersey.

Public trust in government is clearly decreasing. And, proposals such as this, which subvert public will, are responsible for that decrease. Today, we can take steps to mend the relationship between government and the public by granting the public its Constitutional right to make the final call on this deal.